MACKENZIE Investments

10 retirement income tax strategies that you need to know

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Strategy 1

When's the best time to start collecting CPP/QPP and OAS?

For many Canadians, deciding on when to start receiving CPP/QPP and OAS benefits is a major decision. Getting it right is a challenge and can have lasting consequences for your retirement income.

The Canada Pension Plan (CPP)/Quebec Pension Plan (QPP) and Old Age Security (OAS) benefits are available starting at age 65.

However, CPP/QPP retirement benefits can begin as early as age 60 or as late as age 70.

OAS may also be deferred up to age 70.

Choosing to take CPP/QPP benefits earlier means that pensioners will receive up to 36% lower benefits if taken the full five years early, however they'll receive it over a longer period of time.

For QPP, the reduction factor is 0.5% per month before their 65th birthday if the individual's pension is small and will be up to 0.6% if the individual is receiving the maximum pension.

Alternatively, benefits deferred past age 65 will be increased by 0.7% for each month and result in a 42% higher payment if taken the full five years later.

As a result, Canadians will need to decide whether it is in their best interests to take their CPP benefits early or choose to defer.

The following are some factors to consider when deciding to take CPP/QPP early or late (or, in the case of OAS, whether to delay receiving payments).

1. Life expectancy

One of the most significant factors impacting this decision is life expectancy. Generally, the longer the life expectancy, the more advantageous it is to defer CPP/QPP and collect it as late as possible. Alternatively, the lower the life expectancy, the more advantageous it is to start collecting CPP/QPP early.

An often-discussed measurement is the CPP break-even age (see the chart below). This is a mathematical analysis that calculates the age at which the cumulative benefits of collecting the CPP retirement pension late begin to exceed the cumulative benefits of receiving the CPP early.

The break-even age for an individual choosing to collect CPP at age 60 versus age 65 is approximately 74 years, assuming the benefits are spent or not otherwise invested. Therefore, assuming an individual lives past age 74, they could receive more in retirement benefits by waiting to age 65 to start receiving CPP.

Determining life expectancy will require

- An analysis of family history
- The state of the individual's current health, social and environmental factors
- A best guess as to one's own mortality

While it's impossible to predict the exact timing of an individual's death, it shouldn'tbe ignored when evaluating the decision on when to start collecting CPP/QPP.

Did you know?

The break-even age for an individual choosing to collect CPP at age 60 versus age 65 is approximately 73 years.

CPP break-even age chart

Age	60	61	62	63	64	65
CPP benefit/month	$836	$930	$1,024	$1,118	$1,213	$1,307
Cumulative CPP earned prior to age 65 (pre-tax)	$50,172	$44,653	$36,877	$26,842	$14,550	$0
Break-even (months)	106.67	118.67	130.67	142.67	154.67	0
Break-even (age)	73.9	74.9	75.9	76.9	77.9	

Based on 2023 Maximum CPP Retirement Benefit: $1,306.57/month

Note

For QPP, the numbers vary, however the break-even age results are the same for all years of the analysis in the table

2. Cash flow needs

The decision to start collecting the CPP/QPP retirement benefit early or late needs to be part of a larger retirement income plan. A clear, accurate assessment of what expenses will be incurred in retirement needs to be evaluated against what sources of income and cash flow are available.

Where the gap is narrow or negative, retirees may choose to receive CPP/QPP as early as possible.

3. Impact on income-sensitive benefits

Another factor in determining the optimal time to collect CPP/QPP/OAS is the impact that receiving these payments may have on income-sensitive benefits as well as certain tax credits. These include:

- The spousal amount
- Age amount
- Other dependent-related credits based on income levels

For example, a high-income earner with a spouse or common-law partner (CLP) who has little or no income may be eligible for a spousal amount, which is a nonrefundable tax credit with respect to supporting a spouse/CLP with low income.

If the lower-earning spouse at age 60 chooses to start receiving the CPP/QPP retirement benefit early, the high-income-earning spouse may lose entitlement to some or all of this valuable credit. This is an additional cost that needs to be assessed when choosing the right time to collect CPP/QPP.

In addition, for those aged 65 and older and receiving OAS, these benefits are subject to a recovery tax (OAS repayment) if net income exceeds a certain threshold. For 2023, OAS recovery tax applies at a rate of 15% for every $1 of OAS received when net income exceeds $90,997.

Here are a few strategies that impact the timing of CPP/ QPP/OAS benefits as they relate to tax minimization and the optimization of benefits:

- Canadians aged 65 with net income near the OAS recovery tax threshold may consider deferring their CPP/QPP/OAS benefits to a later age in order to avoid exposure to the OAS recovery tax.
- Canadians at age 60 should evaluate the impact of CPP/ QPP benefits over the longer term. By choosing to collect CPP/QPP as early as possible, the lower monthly benefits may help to keep the income levels as low as possible, to stay below the OAS recovery tax thresholds. This may be particularly beneficial if income levels and tax rates are expected to remain constant over retirement.

Other income-tested benefits that may impact the CPP decision include the Guaranteed Income Supplement (GIS) as well as the Allowance and Allowance for the Survivor.

4. Consume or invest?

Another important factor in the decision of CPP/QPP/OAS timing is the use of the funds. Will the funds be used to cover retirement expenses, or is there an opportunity to invest the funds for future consumption?

In the break-even analysis on the previous page, the assumption is that the retiree consumes (that is, spends) the funds. However, the break-even analysis changes considerably if the funds can be invested.

Consider what happens to the break-even age, using the same example above, with the only difference being that the CPP benefit received at the early age is used to invest in a diversified portfolio earning a conservative after-tax rate of return of 4.0%.

In this scenario, the break-even age is extended from approximately just below age 74 (in the case where the funds are consumed) to approximately age 77.5 when the CPP benefits received from age 60 are invested. This is shown in the next table.

The rate of return will have a significant impact on the break-even analysis. Quite simply, the greater the expected rate of return a Canadian retiree can earn, the higher the break-even age. The later the break-even age, the more advantageous it may be to consider taking CPP early. The chart on the next page highlights the impact that varying after-tax rates of return have on the break-even age.

Break-even age chart

After-tax rate of return	1%	2%	3%	4%	5%	6%
Value of investment at age 65 (after-tax)	$38,569	$39,540	$40,543	$41,580	$42,650	$43,757
Break-even (months)	114.68	124.18	135.66	149.96	168.51	194.09
Break-even (age)	74.6	75.4	76.3	77.5	79.0	81.2

Based on 2023 maximum CPP retirement benefit at age 65 of $1,307/month and taken at age 60.

As a result, the decision to take CPP/QPP early is largely impacted by whether or not the funds are invested, how those funds are invested, tax rates, the asset allocation decisions (that is to say, the type of income earned) and the asset location (registered versus non-registered).

5. Disability impact

Canadians with disabilities may be eligible for the CPP disability benefit (CPPD). CPPD benefits are designed to provide partial income replacement to eligible CPP contributors who are under age 65 with a severe and prolonged disability, as defined in the Canada Pension Plan legislation.

- For 2024, the maximum monthly CPP disability benefit is $1,606.78.
- This benefit is higher than the maximum CPP retirement payment of $1,364.60 (2024).
- Also, the CPPD automatically converts to a CPP retirement pension at age 65.
- There is no requirement or need to apply for the retirement pension.

Therefore, Canadians eligible for the CPPD at age 60 are also eligible for the higher benefit that will automatically convert to the retirement benefit at age 65 and generally may not consider taking the CPP retire-ment benefit early as the higher benefits (up to age 65) will provide enhanced income.

6. Current and future tax rates

Comparing current tax rates to expected future tax rates may assist in the decision of when to take CPP/QPP.

- The break-even analysis on the previous page assumes tax rates remain constant in retirement.
- However, if tax rates change through retirement, then the break-even age will also change, as will the timing of collecting the CPP/QPP retirement benefit.

For example, consider an individual aged 60 who is still working and in a high tax bracket.

This individual may earn higher after-tax retirement benefits if they defer their CPP/QPP benefits to the age at which they expect to be in a low tax bracket.

Alternatively, if an individual is expected to be in a higher tax bracket in retirement, they may have an incentive to start receiving the CPP/QPP retirement pension as early as possible.

Tax rates may change over time, which will affect the decision on CPP/QPP timing.

While the future is difficult to predict, estimating future tax rates is valuable and will help make the best financial decision on when to start collecting the CPP/ QPP retirement benefit.

Strategy 2

Why it may be a good idea to share CPP/QPP benefits with your spouse or partner

To qualify for CPP/QPP retirement pension sharing

Both must be at least 60.

They must be living together.

Contributions to CPP/QPP were made by either or both spouses/partners during their time together.

The amount of pension that can be shared is based on several factors:

- How long they have lived together (called the "joint contributory" period).
- This period generally starts when the older spouse turns 18 and ends when both spouses start receiving CPP/QPP retirement pensions.
- If only one spouse contributed to CPP/QPP and that individual is receiving (or has applied to receive) the CPP/QPP retirement benefit, only that pension can be shared.
- If both spouses/partners made contributions during their time together, both pensions can be shared.
- In this case, both spouses/partners must be receiving CPP/QPP benefits or have applied to receive them.

Did you know?

Pension sharing is an income-splitting technique that allows a taxpayer in a high tax bracket to "share" their CPP/QPP benefit with their spouse or common law partner in a lower tax bracket, and thereby reduce their taxes.

CASE STUDY

Sharing CPP/QPP benefits with your spouse

Ryan (68) and Laura (65) have been married for 40 years.

Ryan collects $1,000 per month and has a marginal tax rate of 40%

Laura collects $500 per month and pays tax at a marginal tax rate of 20%.

	Ryan	Laura
CPP retirement benefit	$1,000 per month	$500 per month
Marginal tax rate	40%	20%

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What are the potential tax savings if they applied for CPP pension sharing?

In their case, the joint contributory period is 50 years (it began when Ryan turned 18 and ended when Laura turned 65).

- Ryan and Laura have been living together for 40 years, or 80% of their contributory period.
- The CPP pension that may be shared is 80% of the difference between the two pensions, or $400 (80% of $500).
- Ryan will have his CPP benefit reduced by 50% of this amount ($200) and
- Laura will have her CPP benefit increased by $200.
- After the CPP pension sharing, Ryan will collect $800 per month and Laura will collect $700.
- Over the course of the year, $2,400 of Ryan's CPP benefit has been shifted to Laura ($200 x 12).

Since Ryan pays tax at 40% and Laura pays tax at 20%, the couple will save 20% on every dollar that has been shifted to Laura.

In this example, the annual tax saving is $480 (20% of $2,400).

A few tips on CPP/QPP pension sharing

1. Consider tax rates for both spouses, not only for the current year but also the future. This strategy is most beneficial if Ryan and Laura remain in disparate tax brackets throughout retirement.
2. Watch for any tax bracket "creeping," which happens when adding income increases the tax rate for the person receiving the CPP/QPP benefit. If this occurs, the actual tax savings may be reduced or negated.
3. If Ryan's tax rate is equal to or less than Laura's tax rate, CPP/QPP pension sharing will not result in tax savings.
4. Watch for any impact the pension sharing has on additional tax credits, such as the spousal amount, or benefits like the Guaranteed Income. Supplement (GIS). The potential loss of these credits needs to be weighed against the tax savings.
5. Once the CPP/QPP benefits are shared, the death of one of the spouses will result in going back to the CPP/QPP pension in effect prior to sharing, then readjusting the pension to include a survivor's benefit, if any.

Did you know?

This strategy works best when the pension income recipient is in a higher tax bracket than the spouse/CLP.

Strategy 3

How splitting your pension income can reduce your taxes

Another income-splitting strategy that all Canadians with spouses/common-law partners (CLPs) should consider is pension splitting. This is separate from the CPP sharing rules discussed earlier and applies to other forms of pension income. Individuals resident in Canada and living with a spouse/CLP at the end of the year can allocate, for tax purposes, a maximum of 50% of their eligible pension income to that spouse/CLP.

This strategy works best when the pension income recipient is in a higher tax bracket than the spouse/CLP.

Eligible pension income depends on age and the type of pension received.

For those aged 65 and older, it includes income from:

- A lifetime annuity payment .
- A superannuation.
- Income from a Registered Retirement Income Fund (RRIF), or locked in equivalent (i.e., LIF/LRIF).
- Various annuity payments, including from an insured registered retirement savings plan (RRSP) or from a deferred profit-sharing plan, also count as eligible pension income.

The individual continues to receive the entire amount of income but can allocate up to 50% of the amount to a spouse/CLP for tax purposes.

The receiving spouse/CLP does not need to be 65 years of age or older to receive an allocation. The amount allocated can be changed each year for the couple's benefit.

Options for people under 65

For individuals under 65, the list of eligible pension income is much shorter.

While income from a registered pension plan qualifies for those under age 65, income from the following is only eligible for pension sharing if the payments are received as a result of the death of a spouse/CLP:

- A deferred profit-sharing plan or annuity (registered and non-registered)
- Registered retirement income fund (RRIF)
- Life income fund (LIF)

It's important to note that RRSP withdrawals do not qualify for pension sharing, regardless of the annuitant's age. In Quebec, pension splitting is not available for anyone under age 65, regardless of the type of pension income earned.

Pension income that does NOT qualify for pension splitting include:

- CPP/QPP benefits
- OAS benefits
- Death benefits
- Retiring allowances
- Amounts transferred from a RRIF to an RRSP, RRIF or annuity
- Foreign pension that is tax-free in Canada
- Income from a US Individual Retirement Account (IRA)
- Amounts from a salary deferral arrangement

The eligible pension income rules are also tied to the pension amount, which is a 15% federal non-refundable tax credit. For the spouse/CLP in the lowest tax bracket, the pension amount allows the first $2,000 of pension income to be earned on a tax-free basis. For those in a higher bracket, tax will be payable, but at a reduced rate.

Here are a few tips when considering pension splitting

1. At age 65 or older, consider converting RRSPs to a RRIF, enough to provide at least $2,000 to claim the pension amount. This is particularly beneficial for those in the lowest tax bracket.
2. Double up the pension amount by splitting eligible pension income with a spouse/CLP who does not have pension income. If the recipient spouse also qualifies for the pension amount based on the type of pension and age, they will also be eligible to claim the pension amount.
3. Review the impact of pension splitting on OAS benefits. For those subject to OAS recovery tax, pension splitting may reduce net income and increase OAS eligibility. This may be the case even where spouses/CLPs are in similar tax brackets.

CASE STUDY

Income-splitting

Bob and Jane are a retired Ontario couple.

	Bob	Jane
Net income	$80,000 (Includes OAS)	$70,000
Marginal tax rate	31.48%	29.65%

Pension splitting may not provide significant tax savings for the couple.

However, it may help Bob reduce his net income to a level at which he eliminates the OAS recovery tax. OAS recovery tax is payable when net income exceeds $90,997 (for income year of 2024).

Check out our Income Splitting Strategies Guide for additional information

Did you know?

Spousal RRSPs can be an effective way to split income and minimize tax on retirement income.

Strategy 4

How contributing to spousal RRSPs can reduce your tax

A spousal RRSP is an RRSP where the high-income spouse makes contributions on behalf of the low-income spouse/common-law partner (CLP), who is named as the annuitant (that is, the owner).

There is a significant tax benefit immediately available to the high-income spouse (who receives the tax savings from RRSP contributions). However, the main objective of a spousal RRSP is to shift retirement income from the high-income spouse/CLP to the low-income spouse/CLP.

Some tips when considering spousal RRSPs:

1. Contributing past 71

Canadians over the age of 71 are no longer eligible to contribute to their own RRSP. However, they can make a spousal RRSP contribution on behalf of a spouse under the age of 71 as long as RRSP contribution room is available.

This strategy is available:

- For each year that the contributing spouse has RRSP contribution room available.
- Or that they continue to generate RRSP contribution room.
- And have a spouse/CLP under the age of 71.

2. Be aware of the spousal attribution rule

The intent of a spousal RRSP is to have all withdrawals taxed in the hands of the lower-income annuitant.

- However, when the annuitant of a spousal RRSP makes a withdrawal from the plan when contributions are made in the year of withdrawal (or the previous two calendar years), all or part of the withdrawal is taxed to the contributor spouse (who may pay tax at a higher rate) and not the annuitant.
- Spousal RRIF minimum withdrawals are not subject to this attribution rule.

3. Pension splitting and spousal RRSPs

Spousal RRSPs are still beneficial for retirees planning to take advantage of pension splitting.

- Pension splitting is a great way to income split and reduce taxes in retirement.
- However, the pension-splitting rules allow a maximum of 50% of eligible pension income to be split with a spouse or CLP.
- Spousal RRSPs can shift 100% of the RRIF income into the hands of a lowerincome spouse and offer greater flexibility for income planning in retirement.

Did you know?

You have to make mandatory minimum withdrawals from a RRIF every year, whether you need the income or not.

Strategy 5

Strategies to reduce taxation when converting an RRSP to a RRIF

After the year they turn 71, Canadians can no longer own an RRSP. The problem is, simply withdrawing money from an RRSP can lead to high taxation.

To avoid this, many Canadians convert their RRSP to a registered retirement income fund (RRIF).

You have to make mandatory minimum withdrawals from a RRIF every year, whether you need the income or not.

If the annuitant (RRIF owner) needs income to meet retirement expenses, they can choose to withdraw more than the required minimum amount.

One of the significant benefits of a RRIF is that all money that remains in the RRIF continues to grow on a tax-deferred basis.

Only the amounts withdrawn are taxable.

As the time nears to convert an RRSP to a RRIF, there are several strategies that can lower taxation and increase cash flow for retirees. Here are a few suggestions

1. Use the younger spouse's age

Base the RRIF minimum payments on the age of the younger spouse/common-law partner (CLP). This way, you can reduce the required minimum payments and lower tax.

2. Invest the RRIF minimum

For those RRIF payments that you don't need to fund retirement expenses, consider reinvesting them into an RRSP (if under the age of 72) or into a TFSA.

- Future income will grow free of income tax.
- Contributions to a TFSA would require TFSA contribution room.
- Contributions to a non-registered investment account are also possible where tax-efficient dividends and capital gains can be realized.

3. Pension splitting with RRIFs

Canadians over the age of 65 receiving RRIF income are eligible for pension income splitting.

- They may allocate up to 50% of their RRIF income to a spouse/CLP.
- The $2,000 pension amount is also available and may be doubled if the recipient spouse/CLP is also 65 or older.

4. Beneficiary designations

When the RRSP is converted to a RRIF, a new beneficiary designation must be assigned (this does not apply to Quebec)

- If the intent is for the spouse/CLP to inherit the RRIF, the spouse/CLP should be named as either "successor annuitant" or "beneficiary."
- The successor annuitant designation allows spouses and CLPs to receive the deceased's RRIF based on the plan's original terms and conditions.
- A full tax deferral of the RRIF is available when a spouse/CLP is named successor annuitant or beneficiary.
- A full tax deferral may also be available if other family members are qualifying survivors (financially dependent minor children/grandchildren, and children/grandchildren of any age with a mental or physical impairment).
- Naming a qualifying survivor as beneficiary reduces taxation at death for the estate and increases the beneficiary's inheritance.
- For those with philanthropic objectives, charities may also be named as beneficiaries. In this case, the RRIF is taxable at death, however donation tax credits may be available to offset the taxes, resulting in a tax efficient transfer at death.

5. Make one final RRSP contribution

Prior to the end of the year in which the annuitant turns 71, one final RRSP contribution or overcontribution can be made if RRSP room is available for this year or the following year. This will allow the individual to claim an RRSP deduction in the following year (or after) when the RRSP is converted to a RRIF.

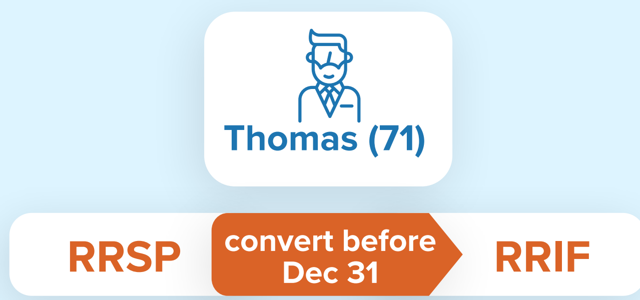
- There are no restrictions from claiming RRSP deductions for those aged 72 and older, as long as the contributions were made prior to age 71.
- Contributions to a spousal RRSP can continue to be made on behalf of a spouse/CLP under age 71, as outlined in the Spousal RRSPs section.
- An overcontribution penalty of 1% per month may apply on overcontributions exceeding $2,000, however the tax savings from this strategy will likely far outweigh the 1% penalty tax.

CASE STUDY

RRSP overcontribution

Thomas is 71 years of age.

He must convert his RRSP to a RRIF before December 31 of this current year.



He is self-employed and has earned $150,000, creating $27,000 of RRSP contribution room for next year. He has no RRSP contribution room for this year.

$150,000
income

$27,000
RRSP contribution room (next year)

However, since Thomas must convert his RRSP to a RRIF before the end of the year, he is unable to contribute to his RRSP next year.

The strategy

- In December of the current year, Thomas makes an overcontribution to his RRSP of $27,000. He is allowed to overcontribute to his RRSP by a maximum of $2,000.
- Overcontributions in excess of $2,000 are subject to a 1% per month penalty tax, which is self-assessed and reported to the CRA by completing form T1-OVP on a timely basis.
- By making the overcontribution in December, Thomas limits his overcontribution penalty to one month, since as of January 1 of the following year, he will no longer be in an overcontribution position (given that new contribution room becomes available).
- The penalty tax Thomas must submit is $250, calculated as $25,000 x 1%.

The outcome

- Although Thomas cannot make any further RRSP contributions in his 72nd year or beyond, he is still permitted to claim RRSP deductions, if they are available.
- Therefore, when Thomas files his T1 personal tax return for next year, he may claim the $27,000 RRSP contribution he made this year.
- If Thomas has a marginal tax rate of 45%, his RRSP contribution will generate $12,150 ($27,000 x 45%).
- The tax savings of $12,150 are far greater than the overcontribution penalty tax of $250 and provide Thomas with more money in his RRSP for retirement.

If Thomas anticipates earning more self-employment income in the future and continues to generate RRSP contribution room for future years, he may incorporate those RRSP contributions in December of the year in which he converts his RRSP to a RRIF. In this case, Thomas may have several months in which he is over contributed to his RRSP, however the annual tax savings from those RRSP contributions may outweigh those tax penalties.

Did you know?

Canadians can contribute up to $7,000 (for 2024) annually to a TFSA.

Strategy 6

Getting the most out of TFSAs in retirement

While TFSA contributions are not tax deductible, there are several benefits to TFSAs, including:

Tax-free income and growth within the plan.

Tax-free withdrawals can be made at anytime.

Any money withdrawn will be added to TFSA contribution room in the following year.

While a TFSA is not traditionally viewed as a retirement savings vehicle, it can serve as an integral part of your retirement income plan. Unlike a RRIF at age 72 (which no longer allows for additional contributions), a TFSA can continue to be used to make contributions, regardless of age, and can continue earning tax-free growth and income.

These strategies can help you to get the most out of TFSAs in retirement:

1. Redirect excess cash to a TFSA

Canadians can contribute excess retirement income or cash flow to a TFSA, up to the permitted contribution limits.

- This could include CPP/QPP and OAS payments (see Strategy 1 on how to contribute CPP/OAS to a TFSA to increase retirement income).
- This could also apply to pension income, including defined benefit payments, as well as the mandatory RRIF minimum payments and other sources of cash flow received.

2. Contribute to a spouse's TFSA

Contributions may be made to a spouse's TFSA without being attributed to the contributor.

- This makes it simple to shift assets to a spouse through a TFSA, without attribution rules applying.
- This simple income-splitting strategy could be effective in creating tax-efficient income for retirees.

3. Use TFSAs for cash flow in retirement

For Canadians who expect to be in the same or higher tax bracket in retirement, the TFSA may form a more valuable source for generating retirement income.

- Since withdrawals from TFSAs are tax-free, additional cash flow needs in retirement could be provided by the TFSA without creating additional taxes.
- See more in Strategy 10: Order of asset withdrawal in retirement.

4. Consider the impact on income-tested benefits

- For Canadians who receive income-tested benefits, generating tax-efficient income in retirement is optimized when the income does not impact those benefits.
- As Canadians plan for how income will be created during retirement, they must consider the impact those sources have on income-tested benefits, such as OAS.

CASE STUDY

Income-tested benefits

Fred is 74 and an OAS recipient.

He has a net income of $75,000 and requires $10,000 of additional income to fund a renovation.

Fred

$75,000 net income + **$10,000** additional income required

Withdrawal options

$10,000 RRIF withdrawal

If Fred increases his RRIF withdrawals by $10,000 to fund expenses, he will have a higher tax bill and be subject to OAS recovery tax.

$10,000 TFSA withdrawal

If he funds the additional $10,000 income by withdrawing from his TFSA, no additional taxes will be payable, nor will he have to repay any portion of his OAS.

Other income-tested benefits include the GIS and personal tax credits like the age amount, which should be considered when drawing additional income from personal savings.

Did you know?

A spousal loan is another powerful income-splitting strategy for couples in retirement.

Strategy 7

A spousal loan can lead to considerable tax savings

As with other income-splitting strategies, the goal is to shift income from the high-tax-rate spouse or common law partner (CLP) to the low-tax-rate spouse/CLP to achieve tax savings.

With a spousal loan, the goal is to shift investment income that would be taxed to the high-rate spouse to the low-rate spouse and is typically best suited for those with sizeable non-registered investments.

CASE STUDY

How a spousal loan works

Amanda and George are residents of Manitoba.

Amanda is a high-income earner, taxed at the top rate of over 50%, while her spouse George has a marginal tax rate of 26%.

George
26% marginal tax rate

Amanda
Over 50% marginal tax rate

$500k to invest

Retirement income

Amanda has $500,000 cash to invest with the goal of providing a source of retirement income.

If she invests this money in a portfolio, all investment income earned will be taxed at Amanda's high tax rate, meaning less after-tax money will be available to her for retirement.

At first glance, Amanda would prefer to gift the money to George, to invest in his name and have all investment income taxed at his lower tax rate.

Unfortunately, the Income Tax Act has a set of attribution rules that would continue to tax Amanda on all investment returns, even though the funds were gifted and invested in George's name.

You can lean more about attribution rules in our Income Splitting Strategies Guide.

The solution

- To avoid the attribution rules, Amanda can "lend" the $500,000 cash to George, instead of gifting it.
- Amanda must charge an interest rate equal to the lesser of the CRA's prescribed rate of interest and commercially available interest rates at the time the loan is made.
- Typically, the CRA's prescribed rate is used for spousal loans.
- As of June 2024, the CRA prescribed rate loan is set at 6%. It is scheduled to decrease to 5% effective July 1, 2024.
- George may then invest the funds to generate investment returns.
- Interest on the loan must be paid by January 30 following each year the loan remains outstanding.

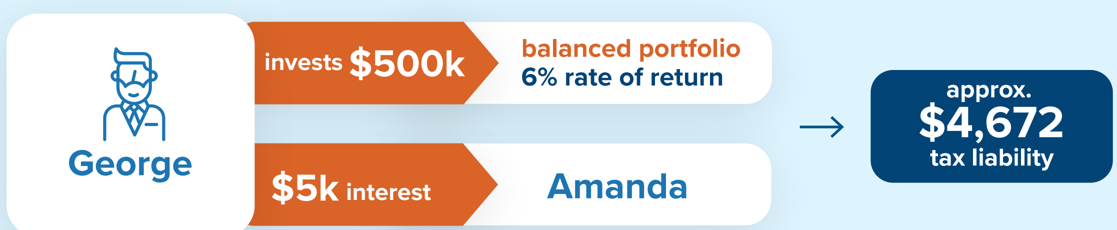
It is extremely important to observe these timelines. If interest payments are late, even by one day, the attribution rules will apply for that particular year, and all subsequent years.

Finally, Amanda is taxed on the interest received while George is entitled to a tax deduction with respect to the interest paid. If this occurs each year, George can pay tax on the investment returns at his lower tax rate instead of Amanda. In effect, the strategy will shift the net investment returns (rate of return on the portfolio less the CRA's prescribed rate) from the high-tax-rate spouse to the low- tax-rate spouse and improve their overall cash flow in retirement.

The result of the spousal loan strategy

Amanda invests the $500,000 in a balanced portfolio earning 6% rate of return (see assumptions in the chart on the next page). Her tax liability would be approximately $9,448 based on the highest marginal tax bracket.

However, by implementing the spousal loan, all investment returns can be safely taxed in George's hands at a much lower tax rate.



With the spousal loan in place, George must pay Amanda $5,000 in interest before January 30 of the following year and is entitled to a tax deduction with respect to the interest paid. Amanda must report and pay tax at her higher marginal tax rate on the interest income received. The total tax bill between George and Amanda on this strategy is approximately $4,672.

Therefore, the income-splitting strategy in the first year provides the couple with roughly $4,777 of tax savings, or an additional $398 per month ($4,777/12) of increased cash flow in retirement.

10 retirement income tax strategies that you **need** to know

Tax benefits of a spousal loan

Year 1	Amanda invests		George invests	
	Amanda	George	Amanda	George
Investment income	$24,000	-	$5,000	$24,000
Interest deduction		-		(5,000)
Taxable income.	$24,420	-	$5,000	$19,420
Marginal tax rate	50.40%	-	50.40%	25.80%
Tax liability	$9,448	-	$2,520	$2,152
Family tax savings				$4,777

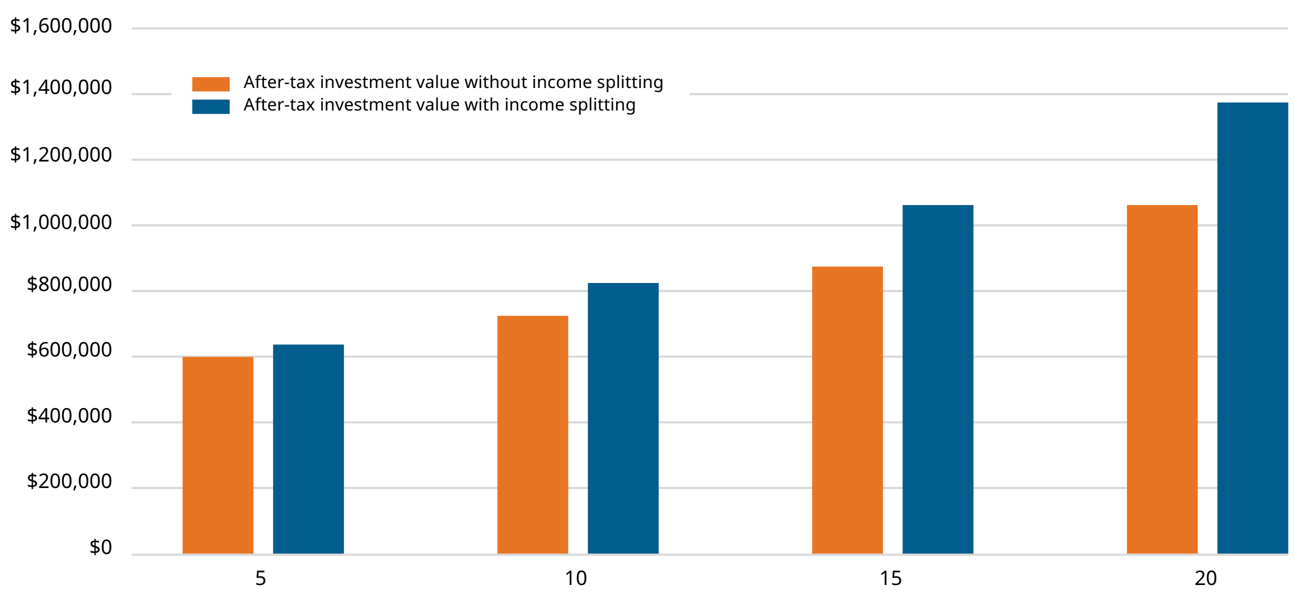
Assumptions:
Rate of Return = 6%, comprised of 30% interest and foreign dividends, 30% Cdn div, 20% cap gains, 20% deferred cap gain
Amanda lends George $500,000 and charges the CRA prescribed rate of 1%
Canadian dividends gross-up 38%
Manitoba tax rates apply (2022)

Given the higher interest rate environment at the time of updating (May 2024), the spousal loan strategy may not be as effective. Therefore, it may be best to implement a spousal loan when the CRA prescribed rate decreases. We have left the example with a 1% prescribed rate to illustrate the benefits of this strategy when interest rates are low.

Long-term benefits of spousal loans

In addition to the annual tax savings Amanda and George will enjoy, the value of the portfolio also increases with time, as taxes are minimized, and more money is available to compound. The following table illustrates the after-tax value of the investment portfolio over five, 10, 15 and 20 years. As outlined, by minimizing taxes on the portfolio, more money is available to grow over time, providing a larger asset base from which to draw retirement income.

Benefits of income splitting



Assumptions:
Figures based on after-tax investment value of portfolio at each respective year
Taxes payable/deductable on spousal loan excluded from portfolio and assumed to be funded by other sources of cash
Annual tax savings from spousal loan is used to fund retirement expenses, and not reinvested

Some tips to consider when implementing a spousal loan

1. Be sure to document the loan properly. The note should include the date of the loan, the amount, the interest rate charged and the terms of repayment. Finally, make sure both parties sign the promissory note.
2. It's best to use cash or other non-appreciating assets. If you lend assets with an accrued capital gain, the capital gain must be recognized and taxes payable. This will reduce or limit the effectiveness of the strategy.
3. Try to avoid the use of joint accounts, either for the source of funds being lent to the lower-income spouse/CLP, or the source of the interest payments that are made to the higher-income spouse. This simplifies the strategy and avoids having to demonstrate to the CRA, in case of a review, that the interest paid, for example, is coming directly from the low-income spouse/CLP.
4. The prescribed interest rate in effect at the time the loan agreement is established is locked in for the duration of the loan, regardless of future changes to the CRA's prescribed interest rate.
5. Consult with a qualified legal advisor when drafting the spousal loan agreement and safely file the documentation.
6. Review the strategy annually to determine whether tax savings are still being achieved and any possible changes that need to be considered.
7. Review the investment strategy and composition of investment returns. This strategy may not result in overall lower family taxes if the portfolio is invested in a highly tax-efficient manner (that is to say, where the returns are primarily in the form of deferred capital gains). In this case, it is possible that the taxes payable on the loan interest received by the high-tax-rate spouse/CLP will exceed any tax savings from shifting the investment income to the low-tax-rate spouse/CLP.

Did you know?

Family trusts are often used to provide flexibility, control, protection, management and distribution of assets.

Strategy 8

Utilize family trusts for income splitting

In tax and estate planning, they may be used to:

Reduce probate fees.

Provide an alternative to wills for the distribution of assets to beneficiaries.

Shift investment income into the hands of lower-tax-rate family members.

Many retired Canadians need income to fund not only their own personal lifestyle expenses but also to help fund their children's or grandchildren's expenses and obligations. These could include:

- Education
- Travel goals
- A down payment for a home
- Financing for a business start-up

The attribution rules that apply to direct transfers/gifts to related family members also apply to family trusts. In fact, the potential for attribution on any investment income within a family trust depends on:

- How the trust is funded
- The structure
- The type of income distributed to the beneficiaries

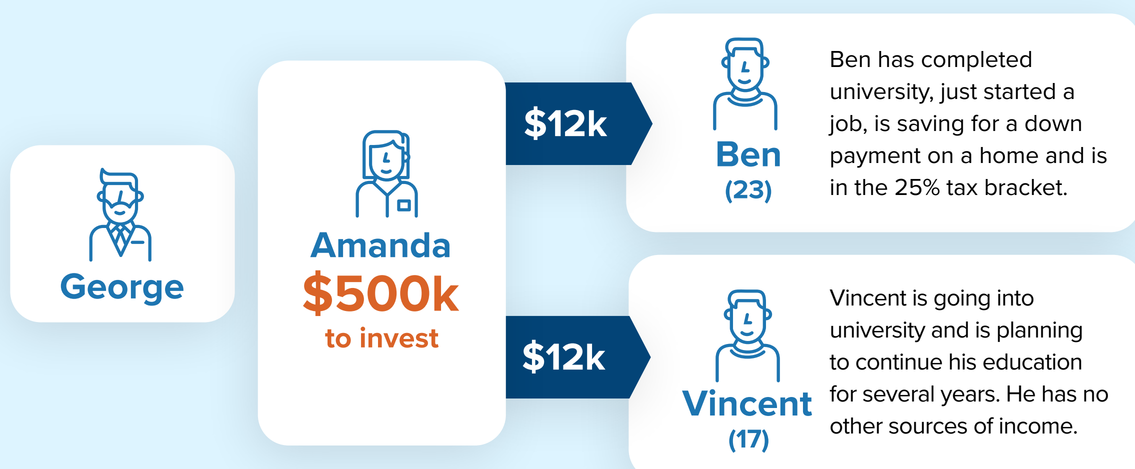
You can find more information on setting the proper trust structure in this Mackenzie brochure.

CASE STUDY

A family trust

Let's get back to Amanda and George from the spousal loan example.

They have two children: Ben (23) and Vincent (17). Amanda has $500,000 available to invest. In addition to Amanda's family and retirement expenses, she would like to assist her children financially by providing $12,000 each.



Amanda is looking to invest in a balanced portfolio earning a 6% rate of return, composed of a combination of:

- Interest/foreign dividends (30%)
- Canadian dividends (30%)
- Realized capital gains (20%)
- Unrealized capital gains (20%)

What choices are available to Amanda?

1. Amanda invests personally

Amanda invests $500,000 in this portfolio and generates the following:

Combined interest	$9,000
Canadian dividends	$9,000
Realized capital gains	$6,000
Total	$24,000

Amanda pays tax at the top marginal rate in Manitoba and has a tax liability of around $9,450. This results in net after-tax income of $14,550.

She is short of her $24,000 goal and would need to dip into the capital of the investment or use other resources to meet her goal of providing each child with $12,000.

2. Amanda gifts money to a family trust

With the help of her financial advisor, accountant and lawyer, Amanda establishes a properly structured discretionary family trust.

- She names her husband George as trustee.
- George and their two sons are named as capital and income beneficiaries of the trust.
- Amanda gifts $500,000 cash to the trust, which is then invested by George (as trustee).
- The portfolio generates the same $24,000 income as if Amanda had invested the funds personally.

In order to provide each of her children with $12,000, the trustee allocates:

- $9,000 of interest/foreign income and $3,000 of Canadian dividends to Ben
- The remaining $6,000 of Canadian dividends and $6,000 capital gains to Vincent

The income allocated to Ben is taxed in his hands because the attribution rules do not apply to adults. The capital gains allocated to Vincent are also not subject to attribution because Vincent is a minor. Assuming Vincent has no other sources of income, no capital gains tax will be payable. However, the Canadian dividends allocated to Vincent are subject to attribution and taxed back into the hands of Amanda.

The total tax liability through this scenario is approximately $4,704

This results in after-tax income of $19,296

This provides considerably more money to the children than in scenario 1.

3. Amanda lends money to the family trust

This option is similar to scenario 2, except that instead of gifting cash to the family trust, Amanda lends the cash to the family trust and establishes a prescribed rate loan agreement with the trust.

- Like the spousal loan strategy, care must be taken to establish a properly structured loan agreement.
- The CRA's prescribed interest rate should be charged on the loan and interest must be paid by January 30 of the year following each year the loan is outstanding.
- This strategy helps to eliminate attribution on any of the investment income that is allocated to lower-taxed family members, as trust beneficiaries.

In this scenario, Amanda will earn $5,000 interest income on the prescribed rate loan ($500,000 x 1%). The trust can deduct this interest expense and allocate the net income to its beneficiaries.

With the loan in place, Amanda will not be subject to attribution on any of the income allocated to the beneficiaries, as the strategy allows her to access her children's lower tax rates.

With $24,000 of investment income, the trustee could allocate:

- $6,000 of Canadian dividends and $6,000 of capital gains to Ben
- The remaining income, which includes $4,000 of interest/foreign income and $3,000 of Canadian dividends, to Vincent.

The total tax liability for this strategy is $3,524. This provides the family with $20,476 of after-tax income.

Example: Prescribed rate loans to a family trust

	Invest personally	Family trust	
		Gift to trust	Prescribed rate loan to trust
Total investment income	$24,000	$24,000	$24,000
Tax on loan interest	$0	$0	$2,520
Tax on interest/foreign income	$4,536	$2,322	$0
Tax on canadian dividends	$3,400	$2,382	$230
Tax on capital gains	$1,512	$0	$774
Total tax	$9,448	$4,704	$3,524
After tax income	**$14,552**	**$19,296**	**$20,476**

Other tips when using a family trust for income splitting

1. There are powerful tax savings when generating eligible dividends and the trust beneficiary has no other sources of income. For example, an Alberta taxpayer can earn up to $71,775 (2024) of eligible dividends without paying any income tax, assuming the taxpayer claims only the basic personal amount and the enhanced dividend tax credit.
2. Care must be taken to ensure that the settlor of the trust (in this case, Amanda) is not a beneficiary. Otherwise, the attribution rules will apply on all income and negate all the tax benefits with this strategy.
3. The settlor can be a trustee, but they should be one of at least three trustees and not have any direct influence/veto power over the trust assets.
4. Consider the costs involved in setting up a trust and the annual administrative, accounting and tax filing costs, as these expenses may reduce the net benefit from this strategy.

A retirement income strategy entails maximizing cash flow to fund expenses in retirement. The prescribed rate loan strategy allows Amanda to income-split all forms of investment income with the trust beneficiaries and access the lowertax- rate family members (including George, if beneficial), while at the same time maintaining control and flexibility over the trust assets in retirement.

Strategy 9

Generate tax-preferred income for non-registered investments

Investors who own securities like stocks and bonds are limited to relying on:

Interest payments from fixed-income securities (which are fully taxable).

Consistent dividend payments from stocks (which, in the case of foreign stocks, are also fully taxable).

Alternatively, retirees can generate cash flow on a regular basis by incorporating systematic withdrawal plans (SWPs), or Series T mutual funds (that is, a return of capital) as part of their retirement income plan to generate a more tax-efficient cash flow in retirement.

1. Systematic withdrawal plans (SWPs)

- An SWP provides investors with a specific payout amount at predetermined intervals (generally monthly, quarterly, semi-annually or annually).
- This arrangement allows investors to receive the benefits of regular withdrawals without the inconvenience of submitting individual redemption requests.
- Additionally, it provides cash flow that is a combination of a tax-free return of capital and capital gains (which is more tax efficient than relying on interest or dividend payments)

A common method of setting up an SWP is to invest a lump sum into a non-registered mutual fund portfolio and then withdraw a fixed dollar amount on a periodic basis (usually monthly). The amount of the systematic withdrawals can be changed at any time to suit the retiree's cash flow needs, and so provide greater financial control and flexibility.

In fact, if planned properly, the earnings on the capital each year can be greater than the amount withdrawn, thereby allowing the investment account to continue to grow while still meeting the investor's cash flow needs.

Taxation of SWPs

Each systematic withdrawal is a separate redemption of mutual fund units and is a taxable event. However, unlike RRSP or RRIF income, the entire withdrawal is not considered to be taxable income.

- Each withdrawal is composed of both a tax-free return of capital and a capital gain or loss.
- Since the return of capital is not taxable to the investor, only a portion of each withdrawal may be taxable, making this plan highly tax efficient.
- Each withdrawal under the SWP will have its own capital gain or loss, depending on the change in market value of the units redeemed.

Did you know?

For retirees, one fo the benefits of investing through mutual funds is that it provides investors with greater flexibility in creating tax-efficient cash flow.

CASE STUDY

Systematic withdrawal plans

Paul invests $100,000 into a non-registered Mackenzie Investments mutual fund.

The net asset value (NAV) is $10 per unit, so Paul purchases 10,000 units. A year later, he decides to set up a $600 monthly SWP for five years. At the time of the first SWP, the fund's NAV is $12. Therefore, he redeems 50 units to obtain his $600 SWP.

Paul invests **$100k** → non-registered **mutual fund** / **NAV = $10/unit** → **Paul** sets up **$600/mo SWP**

Paul redeems: **50** units x **$12** per unit = **$600**

From a tax perspective, each unit is composed of $10 capital and $2 growth.

Therefore, the non-taxable capital component is $500 (50 units x $10) and he realizes a capital gain of $100 ($2 x 50 units) on this SWP. As a result, the taxable capital gain is $50 (50% of $100).

Paul can generate $600 of cash flow for retirement and pay tax only on $50 of capital gains, which is a highly tax-efficient result.

2. Series T mutual funds

Mackenzie Investments' Series T mutual funds also provide retirees with a taxefficient, monthly cash flow stream from a selection of its leading mutual fund investments.

Series T mutual funds provides cash flow to the investor by way of a distribution, not by a redemption of units (as is the case with SWPs). Depending on the mutual fund selected, all or most of the fund's distribution is classified as a return of capital (ROC) distribution. A ROC distribution is different from other distributions, in that it is a tax-deferred payment (there is no income tax liability in the year of the distribution).

Instead, the adjusted cost base (ACB) of the investment will be lowered by the amount of the distribution.

Some of the advantages of Series T include:

- A choice of 5%, 6% or 8% distribution options, depending on the investor's needs.
- Customized cash flow design through the Flexible Payout Service (which can provide retirees with a specific dollar amount).
- Tax efficiency through a blend of tax-efficient cash flow and tax-deferral benefits.
- Since no mutual fund units are redeemed, more units remain invested, offering retirees the opportunity to continue building wealth while creating tax-efficient cash flow in retirement.

CASE STUDY

Series T

Paul invests $100,000 for five years in Series T6 of a Mackenzie Investments mutual fund.

These shares are designed to provide monthly income.

Paul invests **$100k** → X5 years → Series T6 **mutual fund** → Monthly income at **6% rate** (composed entirely of ROC)

- Income is composed entirely of ROC, at a 6% rate (reset annually based on their year-end NAV).
- Assuming the fund's return is 6%, the value of Paul's investment would remain at $100,000 after the ROC distribution.
- Since the NAV of Paul's shares would not change, his income would be $500 per month ($6,000 per year/12 months)

Paul's income: **$500** per month = **$6,000** per year ÷ **12** months

This amount is made up wholly of ROC, so it is nontaxable.

ACB of the investment

The ACB of Paul's investment would decrease by $500 per month owing to the return of his own capital. After five years, the ACB of the investment would have decreased to $70,000.

If Paul redeems his Series T6 funds at that time, he will realize a capital gain of $30,000 (investment value $100,000 – ACB $70,000), and tax will be applied to this amount.

3. Series T mutual funds

Retirees generating taxable investment income should focus on making it as tax efficient as possible.

- Interest and foreign dividend income are considered to be the least taxefficient forms of investment income.
- The Canadian tax system provides more favourable tax treatment for eligible Canadian dividends and capital gains.
- The favourable tax treatment is provided through an enhanced tax credit for eligible dividends and a 50% capital gains inclusion rate, meaning half of the capital gains created are tax exempt.

On the next page is a marginal tax rate table for B.C. residents in 2023. The marginal tax rate represents the percentage of tax that is payable on the next dollar of income earned, based on the retiree's income level.

Retirees can use this as a gauge, along with the assistance of their financial advisor, for estimating the amount of tax to which their current retirement income plan is exposed.

CASE STUDY

Canadian dividends and capital gains

A British Columbia (B.C.) resident has $40,000 of pension income.

$40,000
pension income

Their tax bracket has the following marginal tax rates on income:

Interest and regular income	Capital gains	Eligible dividends
20.06%	10.03%	-9.61%

This means that for an additional dollar of interest earned, 20.06 cents will be tax.

For an additional dollar of capital gains, the tax bill is half.

For eligible dividends, the tax bill is negative 9.61 cents, meaning there are tax savings when an additional dollar of eligible dividends is earned within this income level (as a result of dividend tax credits).

Focusing on capital gains and Canadian dividends for non-registered investments will reduce taxes and increase the after-tax income for Canadian retirees.

Marginal tax rates for B.C. 2023

Taxable income	Marginal tax rates (%)			
	Interest and regular income	Capital gains	Non-eligible Canadian dividends	Eligible Canadian dividends
First $45,654	20.06%	10.03%	10.43%	-9.60%
$45,654 - $53,359	22.70%	11.35%	13.47%	-5.96%
$53,359 - $91,310	28.20%	14.10%	19.80%	1.63%
$91,310 - $104,835	31.00%	15.50%	23.02%	5.49%
$104,835 - $106,717	32.79%	16.40%	25.07%	7.96%
$106,717 - $127,299	38.29%	19.15%	31.40%	15.55%
$127,299 - $165,430	40.70%	20.35%	34.17%	18.88%
$165,430 - $172,602	44.02%	22.01%	37.99%	23.46%
$172,602 - $235,675	46.12%	23.06%	40.41%	26.36%
$235,675 - $240,716	49.80%	24.90%	44.64%	31.44%
$240,717 and over	53.50%	26.75%	48.89%	36.54%

Some tips to consider when creating a tax-efficient income stream in retirement for non-registered plans

1. At lower income levels, eligible Canadian dividends tend to be more tax efficient than capital gains. At higher income levels, capital gains tend to be more tax efficient than dividends.
2. Capital gains and dividends are always more tax efficient than interest and foreign dividend income.
3. When a retiree owns interest and foreign dividend-producing investments, these should be held within registered plans (RRSPs, RRIFs, LIRAs, LIFs, or TFSAs), or more tax-efficient investments in non-registered accounts.
4. Series T mutual funds are suitable for tax-sensitive/high-income retirees seeking ways to generate more cash flow beyond pensions, minimum RRIF payments, etc.
5. Series T mutual funds are also suitable for those with plans to leave money to charity as part of an estate plan. Series T mutual fund investments will exchange tax-deferred cash flow today for a higher capital gain and higher taxation in the future (that is, the estate). This strategy eliminates the capital gain taxation on an in-kind donation of publicly listed securities/ mutual funds to charity.
6. SWPs suit retirees with the potential for high taxes on death in the future (due to large RRSPs/RRIFs), so that the estate taxes are not further increased by a larger capital gain from Series T mutual funds.
7. SWPs also suit retirees in low tax brackets, since the capital gains from each SWP may not create a significant tax burden.

Did you know?

Canadians nearing or in retirement may choose from several financial assets to provide cash flow.

Strategy 10

Strategize your retirement income with asset withdrawals

The most common financial assets include money accumulated in RRSPs/RRIFs, TFSAs and non-registered investments, but could include other assets as well.

The challenges faced by many Canadians is how to maximize the use of these various financial accounts in providing the most tax-efficient source of retirement income and choosing which assets to draw from first.

The following tips can help you to decide the order in which you draw assets:

1. Non-refundable tax credits

An important tax-minimization strategy for any Canadian is to take advantage of tax deductions/credits. For most retirees, the extent of tax deductions is quite limited (unless the retiree is earning self-employed income or has rental properties).

However, there are a few valuable non-refundable tax credits designed for retirees that they should claim as part of their retirement income strategy.

In addition to the federal basic personal amount that is available to every Canadian and allows them to earn up to $15,705 (2024) of income tax-free, retirees may also be eligible for two additional tax credits: the age amount and the pension income amount.

Age amount

- Available to Canadians who are 65 and older at the end of the year.
- The tax credit exempts an additional $8,790 (2024) of federal income tax.
- However, the age amount is subject to a clawback based on net income.
- The entire federal age amount is available for net income below $43,620 (2024) and eliminated when net income exceeds $105,457 in 2024.
- The pro-rated age amount is available for net income between these two thresholds. If there is not sufficient income to utilize the age amount, it can be transferrable to the spouse/CLP.

Each province and territory also has age amounts as tax credits that are calculated similarly (with different values), except in Quebec. The Quebec calculation combines these credits for both spouses and bases its eligibility on the couple's combined net income.

Combining the federal basic amount with the age amount may allow for nearly $24,495 of income tax-free (federally), or up to $48,990 per couple. This valuable tax credit should be preserved when designing the order of asset withdrawal, wherever possible.

Pension income amount

A federal non-refundable tax credit is available on certain types of eligible pension amounts. This allows retirees to earn up to $2,000 of certain pension income on a tax-free basis (assuming they are in the lowest federal tax bracket). Similar to the age amount, any unused pension income tax credits are transferable to the spouse/CLP. You can find more details in strategy #3 on income-splitting.

Other non-refundable tax credits that may reduce taxation for retirees and impact the decision on the order of asset withdrawal, include the disability tax credit and medical expenses for those with a disability/medical issues.

2. Layering income

The process of layering income involves:

- Determining how much retirement income is needed.
- Identifying what income sources are available.
- Devising an income stream from those sources to meet cash flow needs.

The general rule of thumb is to first utilize income that is the least flexible and most tax inefficient to form the base of the income need.

10 retirement income tax strategies that you need to know

These would generally include:

- CPP/QPP
- OAS
- Annuity income
- Employer-sponsored pension income
- Mandatory minimum amounts from RRIFs, LIFs, LRIFs and restricted LIFs

Since retirees have no control over these amounts, it's typically best to use them first, where they can be taxed at the lower tax rates.

If the retiree's cash flow needs are greater than what is provided through government and employer-sponsored benefits, the shortfall will need to be covered by personal savings (or the retiree must reduce their cash flow needs). Personal assets would include RRSPs, RRIFs, TFSAs and non-registered investments, as well as other potential sources of income, such as:

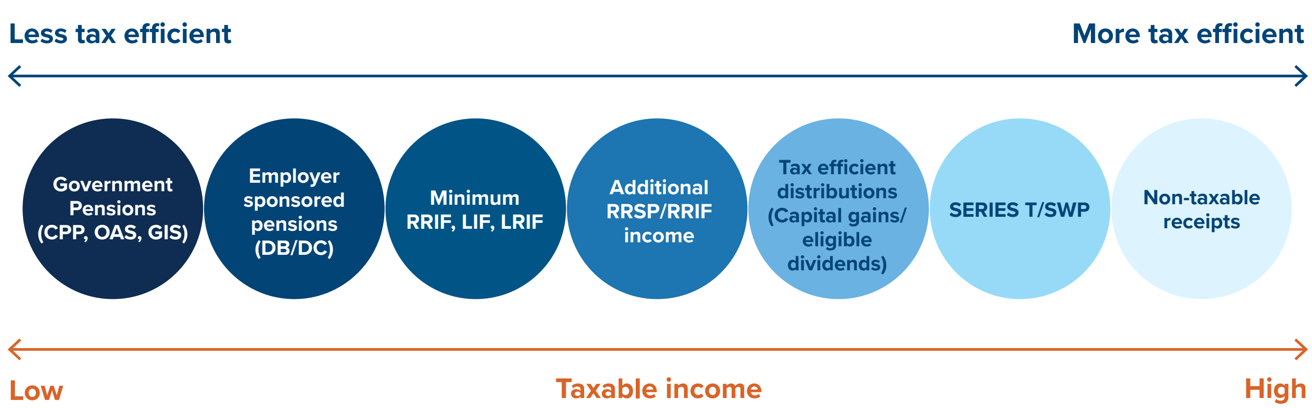
- Rental properties
- Inheritances/gifts
- Businesses
- Sale of other personal assets (for example, a second property)

Layering income with personal assets in a tax-efficient manner involves analyzing many factors. However, generally speaking, as the retiree's taxable income rises, so does the proportion attributable to tax.

Therefore, a retiree should consider layering their income with more tax-efficient sources of income as their taxable income rises. This approach ensures that taxation is kept to a minimum while providing the cash flow to meet the retiree's income needs and also preserving the tax credits and benefit entitlements. When a retiree is in a high tax bracket, consider using highly tax-efficient sources of income, as discussed in strategy #9, to layer the retiree's income.

Layering income is an analysis that should be reviewed at least annually to account for changes in the retiree's life, their needs and circumstances.

Layering: The tax efficiency of investment income sources



3. The RRSP/RRIF exit plan

An RRSP represents one of the most effective Canadian savings vehicles, as it provides valuable tax deductions in working years and tax-deferred growth on investments within the plan. While the RRSP is designed to provide retirement income, most retirees will also have access to other sources of income, including non-registered plans, TFSAs and other assets.

An important component of creating a tax-efficient retirement income plan is to consider the role of an RRSP in funding retirement income and a specifically designed RRSP/RRIF exit plan.

That is, how much of a retiree's income need will be funded by RRSPs now and in the future, and should RRSPs be used early in retirement or deferred for later? This is a challenging issue that many retirees face.

Traditional planning suggests that RRSPs/RRIFs should be deferred for as long as possible since money can continue to grow on a tax-deferred basis within the RRSP/RRIF even into retirement.

Also, to the extent that retirement income needs can be funded with government benefits, pensions or other personal assets, RRSPs and RRIFs can continue to benefit from tax-deferred compounded growth.

However, the downside to a prolonged RRSP deferral strategy is that growing RRSP values over time can become problematic for some retirees:

- Growing RRSP values may result in higher required RRIF minimums, which may push retirees into higher tax brackets where more tax is payable on this income.
- Higher income may also result in a clawback of OAS benefits, as well as nonrefundable tax credits, such as the age amount.
- When a retiree passes away with a large RRSP, the value of the RRSP may be fully taxable in the year of death (if there are no qualifying survivors as beneficiaries), where more than half of the RRSP may be lost to taxation.

Managing the risks of having "too much" money in an RRSP, a retiree may, as part of a retirement income strategy, consider an RRSP exit strategy where the registered assets are drawn down systematically through retirement in a manner that extracts income from RRSPs/RRIFs, particularly for those in very low tax brackets.

If the retiree doesn't need the income, they should consider continuing to systematically draw down the RRSP at lower tax levels and redirect the after-tax amounts into a non-registered plan, or to fund annual TFSA contributions.

Over time, this could have the effect of transitioning a retiree's personal savings from a higher RRSP (which creates tax-inefficient retirement income) to higher non-registered assets (which provide greater tax-efficient retirement income). It may also reduce the risks associated with high RRSP/RRIF balances in later years.

For example, retirees with taxable income from all sources below the first federal income tax bracket (after implementing any income-splitting strategy that may apply) may consider drawing additional RRSP or RRIF income up to the first federal tax bracket (approx. $50,000), where such withdrawals would be favourably taxed at low rates.

The RRSP drawdown strategy has the following benefits:

- The excess RRSP/RRIF amounts may be invested in a tax-efficient nonregistered account, or in a TFSA where future withdrawals are more tax efficient compared to RRSP/RRIF income.
- It reduces the risk that higher RRSP values in the future (by deferring RRSP withdrawals) may create higher required RRIF minimum amounts, which could push retirees into higher tax brackets and lead to a clawback of OAS and the age credit.
- It is beneficial for those under age 65, where additional RRSP/RRIF income will not impact OAS benefits or age amounts (which only become available starting at age 65).
- Where there are no RRSP-qualifying beneficiaries, lower RRSP values at death will result in lower taxation. This helps to avoid the problem of having a large RRSP balance at death, where a significant portion of the RRSP/RRIF is lost to taxation.

Ultimately, every retiree's situation must be evaluated based on their personal circumstances. The traditional approach of deferring RRSPs as a last source of retirement income to maximize the tax-deferred RRSP/RRIF growth may be suitable for some retirees, but not all.

Retirees need an exit strategy with their RRSP that includes both a short-term and long-term approach to how these assets will be used in retirement.

10 retirement income tax strategies that you need to know

For further information about these strategies and how you can benefit from them, speak to your financial advisor.

The payment of distributions is not guaranteed and may fluctuate. The payment of distributions should not be confused with a fund's performance, rate of return or yield. If distributions paid by the fund are greater than the performance of the fund, your original investment will shrink. Distributions paid as a result of capital gains realized by a fund, and income and dividends earned by a fund are taxable in your hands in the year they are paid. Your adjusted cost base will be reduced by the amount of any returns of capital. If your adjusted cost base goes below zero, you will have to pay capital gains tax on the amount below zero.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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